

## Message Text

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PAGE 01 CARACA 08876 261611Z

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ACTION XMB-04

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 9937

INFO AMEMBASSY PORT OF SPAIN PRIORITY

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PORT OF SPAIN PASS O'CONNOR

E.O. 11652: N/A

TAGS: ETRA, EFIN, EALR, VE

SUBJECT: EXIMBANK OFFICIALS VISIT

REF STATE 187670

1. SUMMARY. AFTER DISCUSSIONS WITH VENEZUELAN PUBLIC AND PRIVATE ENTITIES EXIMBANK OFFICIALS CONCLUDED THAT THE PROSPECTS WERE DIM AT THIS TIME FOR JOINT FINANCING WITH THE VENEZUELA INVESTMENT FUND IN THIRD COUNTRIES OR IN THE PRIVATE SECTOR WITHIN VENEZUELA, BUT THERE DOES EXIST CONSIDERABLE OPPORTUNITY FOR THE EXPORT OF U.S. CAPITAL GOODS IN CONNECTION WITH LARGE-SCALE DEVELOPMENT PROJECTS BEING UNDERTAKEN BY VENEZUELAN PUBLIC CORPORATIONS. END SUMMARY.

2. EXIM BANK VICE PRESIDENT FOR LATIN AMERICA, EDWARD J. O'CONNOR AND LOAN OFFICERS ROBERT SIMONINI AND JAMES CRIST HAD EXTENSIVE CONVERSATIONS AUG 18-22 WITH THE VENEZUELAN INVESTMENT FUND (FIV) AND OTHER PUBLIC AND PRIVATE ENTITIES CONCERNED WITH THE COUNTRY'S MAJOR DEVELOPMENT PROJECTS. DISCUSSION WITH HEBERTO URDANETA, GENERAL MANAGER OF THE FUND, AND HIS ASSISTANTS CONFIRMED THE IMPRESSION OBTAINED

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PAGE 02 CARACA 08876 261611Z

IN WASHINGTON (STATE 184284) BY EXIMBANK FROM FUND PRESIDENT

DR. CONSTANTINO QUERO MORALES, THAT FUND WAS NOT IN POSITION AT THIS TIME TO CONSIDER THIRD COUNTRY PARALLEL FINANCING. THE MAGNITUDE OF THE INTERNAL DEVELOPMENT PROJECTS BEING UNDERTAKEN BY THE AUTONOMOUS STATE CORPORATIONS WOULD REQUIRE EXTERNAL FINANCING BEYOND THE FUND'S CAPACITY. IT ALSO BECAME CLEAR THAT THE FUND WAS NOT IN A POSITION AT THIS TIME TO CONSIDER JOINT FINANCING OF PRIVATE SECTOR PROJECTS. THE EXIMBANK'S OWN DISCUSSIONS WITH MAJOR PRIVATE ENTERPRISES, SUCH AS ELECTRICIDAD DE CARACAS, DID NOT PROVIDE MUCH ENCOURAGEMENT FOR FINANCING U.S. EXPORTS OF CAPITAL GOODS. IN SOME CASES WHERE CONTRACTS HAVE ALREADY BEEN LET, U.S. FIRMS WERE UNDERBID BY OTHER FOREIGN SUPPLIERS, AND IN OTHER CASES U.S. SUPPLIERS SIMPLY FAILED TO SUBMIT BIDS.

3. HOWEVER, STATE OWNED CORPORATIONS, SUCH AS THE CORPORACION VENEZOLANA DE GUAYANA, (CVG), ELECTRIC COMPANIES CADAFE AND EDELCA, AND THE STEEL COMPLEX SIDOR, WHICH HAVE LARGE EXPANSION PROGRAMS UNDERWAY, DO PROVIDE A FERTILE AREA FOR U.S. CAPITAL EXPORTS. CVG IS UNDERTAKING NEW INDUSTRIAL PROJECTS IN THE PERIOD 1975-79 FOR MANUFACTURE OF ALUMINA, CAUSTIC SODA, TRACTORS AND DIESEL ENGINES, ELECTRODES AND FOUNDRY PRODUCTS AT A COST ESTIMATED AT \$660 MILLION OF WHICH \$402 MILLION REPRESENTS FOREIGN COMPONENT COSTS. OF THIS LATTER AMOUNT CVG ESTIMATES THAT AS MUCH AS \$203 MILLION COULD REASONABLY BE EXPECTED TO COME FROM THE UNITED STATES PROVIDING U.S. FIRMS BID AND FINANCING COULD BE OBTAINED. THE SIDOR EXPANSION INVOLVING A LIME PLANT, ELECTRIC SUBSTATIONS, DIRECT REDUCTION PLANT, PLATE MILL OXYGEN PLANT, COMPRESSED AIR PLANT, MAINTENANCE SHOPS, LIGHTING, SCRAP PREPARATION PLANT AND ENGINEERING SERVICES, WILL COST \$876 MILLION OF WHICH \$528 MILLION REPRESENTS FOREIGN COSTS. THE EDELCA EXPANSION, INVOLVING GENERATORS, TRANSFORMERS, ELECTRICAL SUBSTATIONS AND OTHER ELECTRICAL EQUIPMENT IS EXPECTED TO COST \$1,187 MILLION OF WHICH \$487 MILLION REPRESENTS FOREIGN COSTS.

4. DISCUSSING THE POSSIBILITY OF JOINT FINANCING OF PUBLIC PROJECTS, THE FUND SEEMED TO REACT POSITIVELY TO THE IDEA OF THE EXIMBANK PROVIDING SOME MINIMUM PORTION FOR THE FINANCING OF U.S. SUPPLIED COMPONENTS AND THE FUND FINANCING THE LIMITED OFFICIAL USE

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PAGE 03 CARACA 08876 261611Z

REMAINDER. O'CONNOR EXPLAINED THE CONCEPT AND GENERAL MECHANICS OF PARTICIPATORY FINANCING WITH THE EXIMBANK AND MADE CLEAR THAT ANY PROPOSITION WOULD HAVE TO HAVE THE APPROVAL OF THE EXIMBANK BOARD OF DIRECTORS. O'CONNOR ALSO MADE CLEAR THAT THE EXIMBANK WOULD EXPECT THE FUND TO FINANCE THE ENTIRE PORTION OF THE COST OF U.S. COMPONENTS NOT FINANCED BY THE EXIMBANK, RATHER THAN SEEKING OTHER FOREIGN FINANCING FOR A PORTION OF THE COSTS.

5. CVG, SIDOR AND EDELCA AGREED TO PROVIDE THE EXIMBANK WITH A COMPLETE LIST OF THEIR FOREIGN COMPONENT NEEDS ALONG WITH AN INDICATION OF THE ITEMS IN WHICH U.S. FIRMS COULD REASONABLY BE EXPECTED TO BE COMPETITIVE.

6. COMMENT: EMBASSY STRONGLY BELIEVES THAT DESPITE THE POOR PROSPECTS AT THIS TIME FOR EXIMBANK AND VENEZUELA INVESTMENT FUND JOINT FINANCING IN THIRD COUNTRIES AS WELL AS IN THE PRIVATE SECTOR IN VENEZUELA, A GOOD OPPORTUNITY EXISTS FOR THE PROMOTION OF U.S. CAPITAL GOODS EXPORTS THROUGH EXIMBANK-FUND FINANCING OF U.S.-PRODUCED EQUIPMENT FOR THE LARGE SCALE PUBLIC SECTOR PROJECTS BEING PRESENTLY UNDERTAKEN IN VENEZUELA. ONE OF THE MAIN PROBLEMS FOR THE U.S. IN TAKING ADVANTAGE OF THIS OPPORTUNITY, IN ADDITION TO THE FINANCING ASPECT, IS TO ENSURE THAT U.S. FIRMS WITH THE CAPABILITY OF SUPPLYING THE NEEDED EQUIPMENT AND SERVICES ACTIVELY SEEK THE BUSINESS THROUGH COMPETITIVE BIDDING.  
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